

## Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 EA-10 IO-13 ISO-00 STRE-00 AGRE-00

CEA-01 CIAE-00 COME-00 DODE-00 FRB-03 H-01 INR-10

INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00

AID-05 SS-15 STR-07 ITC-01 TRSE-00 ICA-11 SP-02

SOE-02 OMB-01 DOE-15 /136 W

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R 070210Z JUL 78

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 9387

INFO AMEMBASSY CANBERRA

USMISSION GENEVA

AMCONSUL HONG KONG

AMEMBASSY JAKARTA

AMEMBASSY PARIS

AMEMBASSY SEOUL

AMEMBASSY SINGAPORE

AMEMBASSY TAIPEI

AMEMBASSY WELLINGTON

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DEPT PASS STR ELECTRONICALLY

USMTN

USOECD

E.O. 11652: N/A

TAGS: ETRD, MTN, OECD, EEC, JA

SUBJECT: EFFECT OF YEN APPRECIATION ON JAPANESE BUSINESSES

1. SUMMARY: APPRECIATION OF THE YEN TO CLOSE TO 200 YEN  
TO ONE DOLLAR MARK HAS BEEN RECEIVED IN JAPAN WITH UNUSUAL  
CALM. SOME INDUSTRIES CONTINUE TO PROSPER AND MANY OTHERS  
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ARE HOLDING THEIR OWN. HOWEVER, PROFIT MARGINS ARE BE-  
GINNING TO FEEL SQUEEZE AND APPRECIATION TO 200 YEN LEVEL  
WILL BE STRONGLY FELT BY JAPANESE EXPORTERS. END SUMMARY.

2. THE APPRECIATION OF THE YEN FROM ABOUT 225 TO ONE  
DOLLAR TO 200 DURING THE LAST 10 WEEKS HAS NOT STIMULATED  
THE APPARENT TRAUMA FOR JAPANESE BUSINESS OF EARLIER

SHARP YEN RISES DURING LAST TWO YEARS. THE VERNACULAR PRESS HAS BEEN REMARKABLY QUIET ABOUT RECENT EFFECTS ON BUSINESS. THE LITTLE COMMENT MADE ATTRIBUTES CONTINUED EXPORT STRENGTH TO SEVERAL FACTORS: HIGH JAPANESE QUALITY, WHICH ATTRACTS DEMAND EVEN AT HIGHER PRICES; IMPROVED PRODUCTIVITY; INFLATION ABROAD, ESPECIALLY IN THE U.S.; STABLE DOMESTIC COSTS OF PRODUCTION; AND RECENT STRENGTH IN DOMESTIC DEMAND, WHICH HAS TAKEN UP SLACK IN SOME AREAS. ALSO, IMPORTERS HAVE ENJOYED SUBSTANTIAL FOREIGN EXCHANGE GAINS AS THE YEN COST OF THEIR FOREIGN PURCHASES DECREASED.

3. ACCORDING TO PRESS ABOVE ELEMENTS TOGETHER HAVE MITIGATED TO A CONSIDERABLE EXTENT THE ADVERSE EFFECT ON CORPORATE PROFITS THAT IT HAD BEEN FEARED, WOULD RESULT FROM YEN APPRECIATION. THIS IS NOT TO DENY THAT APPRECIATION HAS HAD SIGNIFICANT EFFECTS ON JAPANESE FIRMS ALREADY IN DIFFICULTIES, SUCH AS SHIPBUILDING, ALUMINUM, AND PETROCHEMICALS, WHICH NOW FIND THEIR EXPORT EARNINGS ERODING FURTHER AND COMPETITION OF IMPORTS FOR DOMESTIC MARKETS BECOMING STRONGER.

4. OTHER INDUSTRIES FOR WHICH IMPORTS CONTRIBUTE HEAVILY TO PRODUCTION, OR WHICH REQUIRE LARGE AMOUNTS OF ENERGY, ARE BENEFITING FROM APPRECIATION. OIL AND OTHER FUEL COSTS HAVE DECLINED CONSIDERABLY WITH A FAVORABLE EFFECT LIMITED OFFICIAL USE

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ON THE COST OF PROVIDING ELECTRICITY AND TRANSPORTATION. PUBLIC UTILITIES HAVE NOT PASSED THEIR SAVINGS TO CUSTOMERS, BUT THEY HAVE NOT RAISED PRICES EITHER.

5. EXPORTS IN THE FIRST FIVE MONTHS OF 1978 WERE UP 0.7 PERCENT IN YEN TERMS OR 22.1 PERCENT IN DOLLAR TERMS. BY SECTOR, AUTOMOBILES, OPTICAL EQUIPMENT, INSTRUMENTS, MOTORS, AND MOTORCYCLES ENJOYED INCREASED EXPORTS THE FIRST QUARTER OF 1978 DESPITE PAST APPRECIATION. APRIL AND MAY STEEL AND AUTOMOBILE EXPORTS HAVE DECLINED, BUT GOJ "ADMINISTRATIVE GUIDANCE," INDUSTRIAL RESTRAINT, AND U.S. TRIGGER PRICE SYSTEM, HAVE BEEN INFLUENTIAL FACTORS. OTHER PRODUCTS SUCH AS CONSUMER APPLIANCES HAVE HELD THEIR OWN DESPITE APPRECIATION.

6. COMMENT: CURRENT MOOD OF CALMNESS MAY STEM FROM A DELIBERATE GOJ EFFORT TO DOWN-PLAY THE POSSIBLE EFFECTS OF APPRECIATION ON EXPORTS. FURTHERMORE VARIOUS SOURCES ARE PREDICTING AVERAGE JAPANESE CORPORATE PROFITS WILL CONTINUE TO RISE IN JFY 1978 AS A RESULT OF DOMESTIC ECONOMIC STIMULATION AND, IN SOME INDUSTRIES, FOREIGN EXCHANGE GAINS. HOWEVER, JAPANESE EXPORTERS ARE BEGINNING TO FEEL

A PROFIT SQUEEZE AND, WITHOUT DOUBT, APPRECIATION TO THE  
CURRENT 200 YEN TO ONE DOLLAR WILL BE STRONGLY FELT BY  
THEM. MANSFIELD

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## Message Attributes

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